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Smith, Alfred H.

Before the Interstate Commerce Commission...

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[1917]

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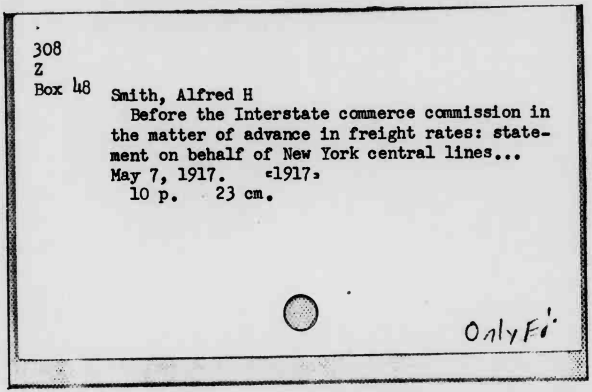
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BEFORE THE

Interstate Commerce Commission.

IN THE MATTER OF ADVANCE IN FREIGHT RATES.

STATEMENT ON BEHALF OF NEW YORK CENTRAL LINES.

A. H. SMITH,
President.

MAY 7, 1917.

BEFORE THE

Interstate Commerce Commission.

IN THE MATTER OF ADVANCE IN FREIGHT RATES.

STATEMENT ON BEHALF OF NEW YORK CENTRAL LINES.

In that part of our country served by the New York Central Lines are to be found many of our greatest industrial centers. Activity in the mines, shops and factories has never been greater than during the past year. It is a matter of common knowledge that the earnings of many of these industrial concerns have been large. Their output has been enormous and it would have been larger but for the inability of the carriers to move in the raw materials and get out the finished products.

How much the limited capacity of our transportation lines may have contributed to present high prices, no one can tell. If we had been able to do many of the things that we know needed to be done, the capacity would now be much greater. But the capital was not to be had, at least at rates which we could afford to pay. However, we have done the best we could for our patrons; despite embargoes, car shortages, congestion at terminals, strikes, and other unfavorable circumstances, we have come through a year that

marks a peak load. Never before has an annual report contained such large figures representing traffic handled.

Prosperity has been, and is widespread to an unusual degree. Our revenues, for a part of the year just past, reflected a satisfactory growth. By great effort and watchfulness, the margin between revenues and expenses was kept for a time on a safe basis, but with the passing of the year came a realization that different times were upon us. Prices for nearly everything rose rapidly. The profits enjoyed by selling all the transportation that could be delivered at old prices began then to melt away under the pressure of higher operating costs.

For the first quarter of 1917 (March estimated) we show, in comparison with the previous year, that gross operating revenues remained practically stationary; that operating expenses increased 16.7 per cent for the New York Central Railroad, 20.8 per cent for the Lines, and as a result of these and other increases, net operating income is lower than in the preceding year by 47.4 per cent for the New York Central Railroad and 52.4 per cent for the Lines.

I do not wish to appear as an alarmist. The problem must and will be solved in some way. But here is a changed situation by which our net operating income is reduced to half of what it was last year, and I should fail in my duty if I did not tell you the facts. The higher prices for labor and materials now upon us do not show their full effect in the figures just cited. During this quarter there were some unexpired contracts from which some protection was had, and the wage increases allowed are not all included in these three months. Because of these increases, and despite the enormous business done, we find ourselves back to a position that we know is not safe, and must be changed if we are to go on.

The proposition is simple. It is an acute attack of the trouble that has been with us for many years. Undoubtedly a different level of prices is now upon us. The railroad must

pay rising prices for what is used, and it can with the greatest difficulty raise its own rates to offset those. By such a process, equity in the property is slowly but surely extinguished, and if it is continued, the finest transportation machine will eventually be broken down.

Some one has characterized the process of rising prices as a vicious circle, but it is only vicious when the circle is incomplete, and a large and important industry is left without recourse to usual methods.

The greatest efficiency in the plant was developed as appears from the ratio—greater must be obtained in such an industry as ours through the further development of men and machinery, and such a process requires time and money.

In the competition for labor, which the new conditions have brought, the railroads are at a great disadvantage. But for a degree of loyalty that is found in some men we should have lost more than ever. In one month last year, the New York Central road lost over 4,000 men who left the service voluntarily, and, therefore, presumably to better themselves. This rate, for a year, would represent more than half of the employees. I do not mean to say that half of our employees have quit our service in a year, for some of the positions are vacated repeatedly, but the fact is that at the rate shown for October, 1916, we suffered a loss due to "turnover," which affects discipline and economy.

When, within the last week or ten days, I visited the yards on our line of railway, I found engines waiting for men to repair them, cars waiting for men to unload them, cars waiting for men to repair them; all because we cannot get men at the price that we can afford to pay. In one of the engine houses I asked why they did not repair the engines, and get them out the night before, and they said, "We cannot get men to work nights for what you will allow us; they can go across the street and get five cents an hour more than we can pay them, and they won't stay."

There are thousands of freight cars standing idle, waiting

for laborers to unload the freight, because they will pay a dollar a day more upon the street or in the municipal work, or in the factory, than the railroad can afford to pay. Those are real every-day facts. Strikes occur by the hour and by the day and by the week, and have been going on.

New York Central System statements for the year ended June 30, 1916, filed here, show that the net operating income gives a ratio of 7.59 per cent upon the net investment in property devoted to public use. That was our best year in recent times. In an industrial company, at this time, seven and one-half per cent would be considered very small. Merely by contrast with other years in the recent past, we are pleased with it, and if we could accept it as indicating a changed condition which might be held, we should be more pleased, but already the temporary gain has disappeared. Our stockholders received no greater dividend, and the larger surplus was but a slight offset to the two very poor years which preceded, when, for example, our whole system earned but 3.29 per cent in 1914 and 4.41 per cent in 1915. The average of the three years would give us a return of barely five per cent, and on such a small return we cannot grow as we should—notwithstanding figures or theories.

Reference was made in the preliminary hearings to our inability to sell stock. For years it has been my hope that the New York Central would be able to increase its stockholding interest, as it should, instead of procuring the necessary new capital upon bonds or notes. In view of the road's improved position last summer, the stock rose in the market to a point considerably above par, and it appeared that the time had arrived for the company to issue stock for a part of the large sums needed for improvement. Conditions changed in a short time, so that we were unable to sell the stock, and it seems plain that either the dividend rate is not high enough, or the public is not sufficiently assured of the railroad situation in this country to make the stock attractive in the investment markets.

The operating ratio for the New York Central Railroad for the year ended December 31, 1916, was only 64.36 per cent. For the Lines it was only 64.11 per cent. Considering the conditions obtaining in this territory, and upon a trunk line, that ratio may be regarded, I believe, as quite a creditable performance. It does not, however, tell the whole story. The expenses of the year show increases in maintenance expenses, but those expenses are not proportionate to the use of the property. The labor that was needed could not be had, and the help that could be hired, could not, or did not, accomplish the same results per dollar of expenses as in former years; therefore the New York Central Railroad expenses are estimated to be more than $5,000,000 lower than they would have been if it had been possible to do the maintenance work which was actually needed. This is, of course, merely deferred maintenance which must some time be made good.

We are here asking for a general increase of 15 per cent in freight rates. Compared with the general increase in prices, especially for those things that a railroad has to buy, this is a modest request. A statement has been compiled by our purchasing department showing the quantities of certain materials purchased in 1916, and the same quantities at the prices now applicable. These articles were not selected by us, and they make up about one-half the purchases of last year. The increase in prices here indicated is practically 40 per cent. This last does not include fuel; for that indispensible commodity, the railroad faces an increased cost of nearly 60 per cent. The New York Central Railroad's purchasing department last year bought $38,882,000 worth of supplies. It is a conservative statement to say that on the present outlook these supplies for the current year will cost 40 to 50 per cent more. So, compared with the prices of commodities consumed by the company, a request for 15 per cent additional freight toll is a very moderate one. If this Commission had the power to grant us an increase

of 15 per cent upon all freight traffic, intrastate as well as interstate, and allowed it upon coal, coke, ore, and all other traffic, the additional revenues would not offset the costs that have been added to our pay-rolls and vouchers in the last fifteen months. Let us take 15 per cent of our freight revenues—the increase cannot work out nearly as much as that, because of the necessity for dividing the flat rates proposed on coal, and so forth, between carriers at interest.

	N. Y. C. R. R. (Exclusive of B. & A. R. R.)	N. Y. C. Lines.
In 1916 we had freight revenues...	$127,806,101.00	$239,593,538.00
15% on all of these would be.....	19,179,000.00	35,050,030.00
As compared with the expense of 1916, there are estimated increases in expenses for 1917 as follows:		
Increased wages—Adamson law....	3,619,000.00	7,250,000.00
Other increased wages granted....	3,700,000.00	6,859,000.00
Fuel	6,589,000.00	13,566,000.00
Other materials and supplies.....	9,600,000.00	18,000,000.00
Taxes	2,306,000.00	2,906,000.00
	25,814,000.00	48,671,000.00

The foregoing items absorb much more than the whole of the increase asked for, and I have not said anything about the increased cost of equipment; nor of the larger fixed charges that we shall have to meet by reason of the investments in additions and betterments that we are constantly making, many of which are required by authorities. Furthermore, we are comparing these costs with 15 per cent upon everything.

Another important point is that these expenses are now upon us, except as affected in a minor way by consuming stock on hand. Already we are nearly six months behind any possibility of relief. That period of itself is enough to absorb a large part of the surplus we may have appeared to gain last year.

A fair estimate of the increases expected by the 15 per cent advance in freight rates based upon last year's revenues is, in round figures, $17,000,000 per annum. One-half of

this will give us for 1917, about $8,500,000 for the New York Central Railroad Company.

Last year at June 30th, we had a surplus for the six months of $13,240,966 after dividends. This year, for the four months ending April 30th, we have not made one-third of our dividend by $1,280,000 and we are $7,811,000 or nearly $2,000,000 a month behind the corresponding figures for the same period last year.

These four months do not reflect the full effect of the higher prices because coal has again advanced during the past week and wages have been recently increased. Since January, we are still charging out at old prices large quantities of material bought at lower prices than those now prevailing. Last year the per diem on freight cars was 45 cents; it is now 75 cents; ours is a debtor road because of large terminal deliveries in the markets we serve. That will take $1,600,000 more according to the estimate made to me. We must stem the tide in some way, if we are to continue in the public service all that this railroad machine means to that public.

After paying our dividend of 5 per cent last year, the balance of the earnings have found investment in the property. Funds other than those required for maintenance and operation must be provided for the upbuilding of the property to enable it to render proper service and keep pace with the growth of the territory that it serves. The expenditures in 1916 were essential to this end. Similar expenditures must continue to be made, and it is necessary that the company shall be permitted to maintain its earnings at a level that will make its securities attractive to investors and thus permit it to obtain the new capital required for investment in the property, and at the same time earn a margin above interest and reasonable dividends that can be turned back into the property in payment for facilities that are required or demanded by the public, but that are not self-supporting and that should, therefore, for the future welfare of the company, be paid for from income.

We now have before us the necessity of making large additional investments in our property if we are to give the service that we should. Our program for this year involves about $38,400,000 of capital expenditures for improvements that are urgent and immediate. The other improvements considered essential for the efficient handling of traffic under normal conditions of peace involve nearly $150,000,000, but these are necessarily deferred for the future.

It becomes a question of getting money, to go into the market and obtain money where it is to be had, and what you are going to pay for it, and with the showing now before us the ability to go into the money market and get the funds necessary to make these improvements is very difficult if not nearly impossible unless you pay an abnormal price for it, and if you pay that price, if you do it on long term bonds or in stock, it will not be possible to sell the stock, and if you put the bonds out at such a price, then you are loading your property with an undue charge for many years. Take it in short-term paper, to finance the property with the uncertainty of what we require and what we have got to have, in the stability, in the credit to permit us to go out and compete with the Government and with all others obtaining money at a reasonable price, we cannot do it without credit, and we cannot get credit without proper earnings to show proper surplus above charges. It is a simple proposition, yet it is a difficult one under the present situation.

The Chairman: What did you state was the amount of the immediate program?

Mr. Smith: Thirty-eight million dollars this year. We have a hundred and fifty million that I did not take the time to recite here, but can furnish in very complete detail if you desire.

The railroads have pledged themselves during the present war to co-ordinate their operations, merging their individual and competitive activities in an effort to promote

the best interests of the country. The execution of the comprehensive plans of the Government for raising and training an army will involve considerable additional expenditure not heretofore contemplated for the establishment of adequate railroad facilities at mobilization camps and at terminals and other points to permit the expeditious movement of troops with the least possible interference with the regular traffic of the roads. Maintenance of a high degree of efficiency will involve increased expenditures on account of the payment of the existing market prices for prompt deliveries of required material, higher wages to employees to retain them in the service, and higher costs of expedited service which it will be necessary to render. The one source of funds available promptly is through additional revenues which can be obtained only through higher rates, due to the conditions in the money market heretofore mentioned.

Present indications point to continued high prices for fuel because of the scarcity of labor and lack of immigration. The same applies to prices for iron and steel articles. The end of the war may bring about a curtailment of demand and some increased capacity, but there is ground for the belief that the capacity of the United States will be taxed for some time because of the destruction of the steel works in Belgium and France and the destruction of shipping. The shortage of labor and the prevailing wages will continue for a time at least although the abnormal commodity prices now in effect may be somewhat reduced. There is further possibility that upon the conclusion of peace foreign born working men may return to Europe, and it is doubtful if European countries will allow their subjects to come here. If so these conditions will tend to prolong the labor shortage.

I do not undertake the role of a prophet and I hope that there is little of the alarmist or pessimist about me. We do not need to forecast the future to a great extent. It is a present condition that we have to deal with. We are doing a record business—we cannot do much more without in-

creasing our plant and equipment—and yet our net income is too small to justify us in increasing the plant, if indeed it is not too small this year to pay our obligations. Values have changed and changed at a rate that none of us has ever seen. We know it in the railroad offices and this Commission must know it. Already the current year is 'way behind what it should be and, before any substantial relief is procurable, the year will be half gone. We do not ask to shift our burdens to others; we ask merely to share in the prosperity of the country and to maintain our position in relation to those we serve. We also ask for that financial strength that we must have in order to carry out the program we have undertaken for the benefit of the country as a whole.

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